

WASHINGTON STATE INVESTMENT BOARD
Board Meeting Minutes
December 15, 2011

The Washington State Investment Board met in open session at 9:30 a.m. in the boardroom at 2100 Evergreen Park Drive SW, Olympia, Washington.

Present: Treasurer Jim McIntire, Chair (via teleconference)
Mike Ragan, Vice Chair (Acting Chair)
Senator Lisa Brown
Steve Hill
Bill Longbrake
George Masten
Patrick McElligott (via teleconference)
Richard Muhlebach
Bob Nakahara (via teleconference)
David Nierenberg (via teleconference)
Judi Owens
Natasha Pranger
Judy Schurke
Jeff Seely

Absent: Representative Sharon Tomiko Santos

Also Present: Theresa Whitmarsh, Executive Director
Gary Bruebaker, Chief Investment Officer
Victor Moore, Chief Operating Officer
Liz Mendizabal, Institutional Relations Director
Steve Lerch, Research Director
Steve Draper, Senior Investment Officer – Real Estate
Bill Kennett, Senior Investment Officer – Fixed Income
Phil Paroian, Senior Investment Officer – Public Equity
Tom Ruggels, Senior Investment Officer – Private Equity
Diana Will, Senior Investment Officer – Asset Allocation
Janet Kruzel, Assistant Senior Investment Officer – Private Equity
John Graves, Investment Officer – Asset Allocation
David Thatcher, Investment Officer – Public Equity
Kris Logan, Investment Accounting Controller
Kristi Haines, Executive Assistant

Steve Dietrich, Attorney General's Office
Rich Protasewich, State Street Bank
Steve Nazzaro, State Street Bank
Martin Sullivan, State Street Bank
Matt Smith, State Actuary

[Names of other individuals attending the meeting are listed in the permanent record.]

Acting Chair Ragan called the meeting to order and took roll call.

ADOPTION OF THE NOVEMBER 17, 2011, MINUTES

**Mr. Masten moved to adopt the November 17, 2011, Board meeting minutes.
Ms. Owens seconded, and the motion carried unanimously.**

PUBLIC COMMENT

There was no public comment.

EXECUTIVE DIRECTOR'S REPORT

Ms. Whitmarsh reported the Private Markets Committee will meet on Friday, January 6, for private equity annual planning. She encouraged broad Board participation. Ms. Whitmarsh said staff is well into the strategic planning process. She will present key themes and resource needs at the January Administrative Committee and will present the final Strategic Plan at the February Board meeting.

[Senator Brown arrived at 9:34 a.m.]

GLOBAL CUSTODIAN AND SECURITIES LENDING PROVIDER SELECTION

Mr. Moore reported the current custodial bank and securities lending contracts expire on June 30, 2012. Staff issued a Request for Proposals (RFP) on June 15 specifying two contracts for these services. The Board would make a recommendation to the State Treasurer for the custodial bank contract, and the Executive Director is authorized to sign the securities lending contract. Staff is recommending the Board appoint one contract for both services to State Street Bank, to take effect July 1, 2012.

Mr. Moore reviewed the custodial and service lending requirements, procurement and evaluation processes, and qualitative and quantitative key decisions considered by the evaluation team, which was comprised of staff from the front, middle, and back office. Mr. Moore thanked staff for their time and dedication to running a fair and open process. He described the procurement timeline, review of contracts, and weighted scoring tool, which resulted in two finalists—State Street Bank and JPMorgan. On-site visits were conducted at two locations for both banks. Staff discussed observations, strengths and weakness, developed a scoring tool, and did thorough reference checking on both finalists. State Street Bank received staff's recommendation as it showed key advantages within core services of value to the WSIB in accounting and custody, technology/systems, portfolio administration, and performance measurement. Both banks were strong in securities lending, but State Street has an impressive record over a long period of time and has world-wide capacity. They also impressed staff with their strong focus on client services, transition plan, and cash movement abilities. State Street Bank would have extra staff on-site during the transition period and be subject to penalties if WSIB timelines are not met.

Mr. Seely asked about the price for State Street Bank's services. Mr. Nierenberg asked about the extent of staff's due diligence within the securities lending and foreign exchange services areas. Mr. Dietrich said financial information is confidential without a contract in place, but could be discussed in executive session. Mr. Moore said staff had changed its foreign exchange processes within the past five years to make it more transparent. Ms. Logan said she spent time with State Street's foreign exchange unit in Boston—they have a very detailed process in place and improved transparency with time stamping of trades and spreads based on that, and that data would be available to the WSIB. The custodial bank does a relatively small amount of foreign exchange compared to what is done by WSIB external managers. In response to

Mr. Nierenberg's question if the data made available by State Street could be audited by staff to ensure acceptable handling, Ms. Logan replied yes. Mr. Moore said the WSIB had purchased a service to verify pricing. Mr. Hill asked if the custodial bank is a fiduciary. Mr. Moore encouraged the Board to pose that question directly to State Street; however, staff is comfortable with the response the bank provided—they will act as if they are our fiduciaries in some circumstances and staff would identify transactions where they are not fiduciaries. The same response was received by the other banks responding to the RFP. Mr. Masten said he would like to hear more about the fees comparison before the Board makes a decision.

Acting Chair Ragan announced the Board would go into executive session to review negotiation issues regarding the performance of publicly bid contracts since public knowledge regarding such discussion would cause a likelihood of increased costs. He said the executive session was expected to take five minutes, at which time the Board would reconvene in public session.

[The Board went into executive session at 9:52 a.m., and reconvened in public session at 10:02 a.m.]

Mr. Thatcher said during the due diligence process, the finalist banks completed questionnaires on their failed trade statistics on performance in returning loans. Both had low fail rates. Additionally, securities lending providers are required to use WSIB's cash collateral guidelines that are very conservative and closely monitored by Fixed Income staff. Public Equity staff has recently put a failed trade monitoring report into place to see how often external managers fail so staff can deal with the manager and custodial bank at that time. There has been a very low experience of failed trades over the past 18 months due to the monitoring and proactive measures by the custodial bank.

Mr. Nierenberg asked what securities lending losses were incurred by the WSIB between September 2008 and June 2009. Mr. Bruebaker responded the WSIB's collateral reinvestment guidelines are more conservative than most other states and WSIB has never sustained a loss over any given quarter. Past issues have occurred within commingled accounts that were frozen until securities lending issues were worked out, but there were no losses. Staff is considering a process for separating commingled into separate accounts to ensure this does not occur again. Mr. Nierenberg said he likes the idea of separating out accounts to avoid having them frozen again.

Messrs. Protasewich, Nazarro, and Sullivan from State Street Bank gave a presentation to the Board. Mr. Protasewich read a letter from State Street's Chairman, Jay Hooley, into the record (attached). He described State Street's approach in responding to the procurement, its transparency, and an introduction to its accounting, technology, custody, and securities lending processes. Mr. Nazarro described what he and his team do in the core services unit, what processes have changed and what is unchanged, improved products that increase transparency, financial strength, and commitment State Street will bring to the WSIB to help it manage assets. Mr. Sullivan described State Street as revitalizing, growing, and exceptionally competitive in the markets. He understands the important decision before the Board of who will service assets. State Street needs to be a thought leader, and exceptional and successful at bringing speed and urgency to daily client servicing and product development and technology in order to align with large pension systems across the world. He believes State Street Bank is well positioned and is excited about what services it can provide to WSIB. He highlighted data models that will speed integration with WSIB systems, such as the data warehouse. Mr. Sullivan said State Street is

changing to cloud computing technology to revolutionize how data is processed, and plans to provide private clouds for its clients to access all of State Street's applications to speed data delivery. He said State Street is the largest provider to private equity and hedge fund firms, with great utilities and tools for examining data and evaluating risk.

Mr. Sullivan responded to Mr. Hill's question relating to fiduciary responsibilities. He said being a fiduciary means executing and delivering for the client. Certain accounting and custody functions are delivered in a fiduciary role, but areas of investment discretion and decisions are areas he does not believe the client would want the bank to be a fiduciary. The bank will look at functions and determine its fiduciary role and standards the WSIB would apply. There is alignment in settling trades and moving assets, but it would be difficult to play a fiduciary role in manager selections or portfolio allocations and he does not believe the WSIB would want the bank involved. The bank has an obligation to execute trades and through different entities, and evaluate counter parties and ensure there is no overweighting to one particular party or trading party. It evaluates broker commission reporting. State Street receives clear guidelines and instructions from the WSIB, which it executes and ensures it has governance models in place.

Ms. Owens moved the Board recommend to the State Treasurer the awarding of the global custodial contract with an initial five-year term commencing July 1, 2012, with two potential renewals in up to three-year increments to State Street Bank and Trust Company, and to the Executive Director the awarding of the securities lending contract to the same bank, subject to additional due diligence and successful contract negotiations. Ms. Pranger seconded the motion.

Mr. Masten said he would support the motion but noted the Board goes through this exercise every five years and there are so few entities providing custodial services, the banks seem to be recycled. He does not see any available alternatives. He hopes there is an open process, and that State Street's services have improved and staff does not become unhappy with them over the next five years. Mr. Hill said he sees it similarly and respects the evaluation team's recommendation, but was not satisfied with State Street's response relating to its fiduciary role. Staff needs to ensure they follow instructions and processes so State Street acts on behalf of beneficiaries. Mr. McElligott said WSIB had State Street as its custodial bank for several years prior to replacing it with JPMorgan. He believes State Street has improved over the past five years, and he supports the motion. Ms. Owens said she appreciates Board member comments. WSIB has rules and instructions in place, and a responsibility to ensure past issues do not reoccur. Mr. Nierenberg said staff needs to ensure foreign exchange rates are audited, and there are resources and processes in place to constantly verify the quality of State Street's work is what we believe we negotiated for. In contracting, staff should be shrewd about how contractual disputes are resolved on a timely basis, and stipulate damages if not. Treasurer McIntire said recognition should be given to the limited pool of service suppliers, and the leap frog methods used to outdo each other with new processes and tools, which serves to play off each other over time. Staff needs to be more upfront and aggressive if issues arise, and closely monitor and work to keep the relationship on the right course. This is a big contract for the WSIB.

The above motion carried unanimously.

PRIVATE MARKETS COMMITTEE REPORT

Mr. Masten reported the Private Markets Committee met on December 1 to consider three investment recommendations and the real estate annual plan.

Private Equity Investment Recommendations

Warburg Pincus Private Equity XI, L.P.

Mr. Masten moved the Board invest up to \$750 million, plus fees and expenses, in Warburg Pincus Private Equity XI, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Pranger seconded the motion.

Mr. Masten said this global private equity fund will have a target size of \$12 billion and will continue the general partner's successful multi-stage strategy of investing in private equity transactions including venture capital, growth capital, buyouts, recapitalizations, and other special situations, primarily in North America, Europe, and Asia. The proposed commitment is consistent with the model portfolio, but was not specifically included on the Board-approved 2011 private equity annual plan as staff believed at the time that WP XI would begin fundraising in early 2012. However, since some 2011 planned commitments are being delayed until 2012, WP XI is being moved into 2011, without exceeding total commitments in the approved 2011 plan. He said the recommendation is based, in part, on the firm's reputation, strong and experienced team, global presence, top-down investment strategy, solid long-term performance, excellent portfolio fit, and our successful long-term relationship.

The above motion carried unanimously

Denham Commodity Partners VI, L.P.

Mr. Masten moved the Board invest up to \$200 million, plus fees and expenses, in Denham Commodity Partners Fund VI, L.P., subject to continuing due diligence and final negotiation of terms and conditions. Ms. Pranger seconded the motion.

Mr. Masten said this energy-focused middle-market buyout fund has a target size of \$2.5 billion, and will generally make equity commitments of \$25 million to \$250 million to build a portfolio diversified by both geography and all segments of the energy and commodities sectors. This would be a new relationship for the WSIB and would contribute to addressing the need to increase the WSIB's private equity portfolio's exposure to the energy sector and to emerging markets. The proposed investment is consistent with the Board-approved 2011 private equity annual plan and the model portfolio. He said the recommendation is based, in part, on Denham's strong performance; focus on the energy sector, geographic diversification, experienced team with extensive and industry expertise, in-house risk management group, and attractive fit with the WSIB's portfolio rebalancing effort.

The above motion carried unanimously.

Real Estate Investment Recommendation

Emerging Markets Fund of Funds II, LLC

Mr. Masten moved the Board invest \$400 million plus fees and expenses to Emerging Markets Fund of Funds II, LLC. Ms. Owens seconded the motion.

Mr. Masten said the Emerging Markets Fund of Funds II will be an entity wholly owned by the Washington State Investment Board designed specifically to invest in real estate funds in emerging markets around the world. This is effectively a follow on investment to the successful Emerging Markets Fund of Funds, LLC, which was approved by the Board in March 2007. The proposed investment is consistent with the Board-approved 2011 real estate annual plan. He said the recommendation is based, in part, on the quality of the Fund's management team, cost-effectiveness, strong track record, diversification provided to the real estate portfolio, and the attractive strategy which provides access to emerging markets.

The above motion carried unanimously.

[The Board recessed at 10:45 a.m., and reconvened in open session at 10:55 a.m.]

AUDIT COMMITTEE REPORT

Mr. Hill reported the Audit Committee met on December 6 to receive the 2011 year-end proxy voting, quarterly investment referrals reports, internal audit report on disbursements, and audit recommendations status report. The Committee also received the results of Peterson Sullivan's annual Conflict of Interest Policy compliance review. There were no findings in the areas of gift reporting, travel, personal investments, and training, but one employee was late filing their Statement of Financial Affairs Form. Management indicated procedures will be implemented to ensure this does not occur going forward.

Revisions to the Conflict of Interest Policy 2.00.100

Mr. Dietrich described the proposed policy changes regarding approval of specific investments (such as exchange traded funds [ETFs]), delegation of investment approval requests, and submission of investment reports.

Mr. Hill moved the Board approve the revisions to the Conflict of Interest Policy 2.00.100. Ms. Pranger seconded the motion.

In response to Mr. Seely's question as to why the policy treats ETFs differently than mutual funds, Mr. Dietrich said the statute addresses mutual funds but not ETFs. Ms. Whitmarsh said she treats them as though they are mutual funds, but the policy revision makes it explicit.

The above motion carried unanimously.

Fiscal Year 2011 Independent Financial Auditors' Reports

Mr. Hill said Peterson Sullivan provided unqualified audit opinions on each of the six separate sets of financial statements prepared by WSIB. No audit adjustments to the financial statements were made, no disagreements in processes were identified, and Peterson Sullivan reconfirmed their independence to the WSIB.

Mr. Hill moved the Board accept the Audit Committee's recommendation to approve the Fiscal Year 2011 Independent Auditors' Reports and approve the 2011 annual report in its entirety. Mr. Masten seconded, and the motion carried unanimously.

GOVERNANCE AD HOC COMMITTEE REPORT

Mr. Hill reported the Governance Committee met on December 6 to discuss its remaining work assignments and to share suggestions the Committee may have for the other Board Committees tasked with investment and organizational strategies, and assessing enterprise risk initiatives. Staff provided a status update on developing the WSIB Story for various stakeholder groups and other audiences. Committee members provided input on key messages, target audiences, and priority groups to meet with. The Committee brainstormed potential solutions relating to the Board Independence, Continuity, and Competence initiative. Staff will develop a draft briefing document for the Committee's review that could be used by the Chair in meeting with appointing authorities to discuss upcoming Board vacancies and advise on the role, duties, and time commitment required to serve on the Board. Members also discussed suggestions for the Board to develop an individual Board member self-assessment tool, a mentorship program, refine its Committee and Chair assignment processes, and develop Board governing principles. The Committee will work on these issues at its next meeting on February 2.

PUBLIC MARKETS COMMITTEE REPORT

Acting Chair Ragan reported the Public Markets Committee met on December 6 to consider revisions to the Savings Pool Investment Policy, the results of the public equity benchmark review and policy changes, and to conduct Public Equity 2012 annual planning session.

Savings Pool Policy 2.13.200 Revision

Acting Chair Ragan moved the Board approve the proposed revisions to the Savings Pool Policy 2.13.200. Ms. Schurke seconded the motion.

Acting Chair Ragan said the Savings Pool is an option for Deferred Compensation Program and Judicial Retirement Account participants and is comprised of Guaranteed Investment Contracts, issued by insurance companies, and cash invested in a money market fund. Currently, only two insurance companies meet the credit rating criteria set forth in the Savings Pool Investment Policy, which has resulted in cash increasing to approximately 45 percent of the Savings Pool's assets. The primary objective for the fund is to ensure the preservation of principal and staff continues to believe that the best available option is to invest the maximum allowed under policy with insurance companies that meet the required credit rating and invest the remaining cash in a money market fund. Language has been added to the investment policy regarding the effect of market considerations on the Savings Pool.

The above motion carried unanimously.

Public Equity Global Benchmark Recommendation and Policy Changes

Acting Chair Ragan moved the Board adopt the MSCI All Country World Investable Market Index for the public equity policy benchmark and approve the proposed revisions to the following policies:

- **2.10.100 Public Markets Equity – Retirement Funds**
- **2.11.100 Defined Contribution Plan 3 Retirement Funds**
- **2.13.100 Deferred Compensation Program and Judicial Retirement Account**
- **2.20.100 Labor and Industries' Funds**
- **2.25.100 Permanent Funds**
- **2.35.100 Advanced College Tuition Payment Program**
- **2.35.400 Developmental Disabilities Endowment Trust Fund**

Ms. Owens seconded the motion.

Acting Chair Ragan said Public Equity staff performed a comprehensive review of global benchmarks which resulted in a recommendation to change the public equity policy benchmark. The recommended benchmark best meets the WSIB's needs for investability and coverage. This change will maintain the WSIB's global equity exposure and broad market coverage, reduce benchmark misfit risk in the portfolio, and simplify the overall structure. Seven policy revisions are also before the Board for consideration: five resulting from the benchmark recommendation and two reflecting the new defined contribution options implemented in October.

The motion carried unanimously.

2012 Public Equity Annual Plan

Mr. Paroian began the annual planning discussion with a review of the program's key principles and beliefs; discussion of global equity, emerging markets, downside protection, and governance and implementation issues; and the Public Equity program changes, risk measures, accomplishments, and profile. Each Senior Investment Officer had also been asked as part of the annual planning process to look forward over the next five to six years to identify what themes the program could pursue, and determine what makes sense based on resources. The unit is currently comprised of three staff.

Mr. Paroian reviewed what staff must do in 2012, including ongoing manager monitoring, responsible manager replacement when appropriate, responding to *ad hoc* questions and requests, implementing benchmark and permanent fund asset allocation changes, and continuing staff development. In order to keep the program moving forward to fulfill fiduciary responsibilities, he believes staff should research passive exposure, focus on emerging markets due diligence, and consider future ideas. Eight themes were generated and prioritized by financial impact and benefit to beneficiaries: 1) improved manager monitoring, 2) enhancements to the defined contribution programs, 3) research into alternate methods of passive management, 4) hedging strategies, 5) hedge funds, 6) further research into emerging and frontier markets, 7) dedicated small and micro-capitalization strategies, and 8) conducting proprietary research into new ideas. Mr. Paroian detailed potential work within each theme. He said all eight ideas are valid to research, but probably cannot be accomplished with current resources. In response to Mr. Seely's question, Mr. Paroian agreed that themes can shift in financial impact and beneficiary benefit as they are flushed out. He added that staff's research would be brought in

the form of white papers and any recommendations, including search selections, would be presented to the Public Markets Committee.

Acting Chair Ragan moved the Board adopt the 2012 Public Equity Annual Plan. Ms. Owens seconded, and the motion carried unanimously.

EXECUTIVE SESSION

Real Estate Annual Plan

Acting Chair Ragan announced the Board would go into executive session to discuss financial and commercial information relating to an investment since public knowledge regarding the discussion would result in loss to the funds managed by the WSIB or would result in private loss to the providers of the information. He said the executive session was expected to last until about 11:50 a.m. at which time the Board would reconvene in open session.

[The Board went into executive session at 11:28 a.m., and reconvened in open session at 12:02 p.m.]

Mr. Masten moved the Board adopt the confidential 2012 Real Estate Annual Plan that was presented and discussed in executive session. Senator Brown seconded, and the motion carried unanimously.

[The Board recessed at 12:03 p.m., and reconvened in open session at 12:28 p.m.]

PERMANENT FUNDS ASSET ALLOCATION STUDY

Mr. Graves reported on the Permanent Funds asset allocation study, which is conducted once every three years in accordance with policy. He said staff contacted all of the Permanent Funds stakeholders, which are comprised of beneficiaries in six higher education institutions and K-12 schools, while the Office of Financial Management and Legislators represent the corpus side of Permanent Funds. Mr. Graves said the Permanent Funds' investment mandate is unique due to its legal separation between corpus and income. One-hundred percent of income is distributed by law to beneficiaries each month. He said the Department of Natural Resources (DNR) makes contributions to the funds from timber sales and these contributions fluctuate depending on timber market conditions. The asset allocation study considered investment objectives and strategy, with a focus on the risk side for current income, stability of purchasing power, and safety of principal, which is best measured over long term. From the beneficiaries' perspective, income received is put toward budgetary needs in campus maintenance costs. The yield has declined over past 10 years. Beneficiaries are impacted by lower yields, inflation, and unpredictable lumber prices.

Mr. Graves detailed the Permanent Funds and their beneficiaries. He said WSIB calculates the corpus value, which cannot be invaded. He provided analyses of two of the funds' corpus and cash flows, and described differences.

Mr. Graves described the asset allocation study's modeling methodology and beneficiaries' risk tolerances, and long-term focus on preserving the purchasing power of the corpus. Staff's proposal is to invest 30 percent in U.S. equities to improve beneficiary funding capacity. If the Board adopts staff's recommendation, maturities and DNR contributions would be used over time to slowly build up to the recommended allocation; however, because dividend yields are lower than coupons, a slight reduction in current income would result. Staff is looking at ways

to minimize this affect, and phasing in would spread adjustments over time. Staff has communicated this to beneficiaries, but doing nothing would also result in reduced income given the current declining rate environment, and they are well aware of this. Mr. Masten asked if the corpus could be grown. While Mr. Dietrich said the current statute does not provide for this, Mr. Bruebaker suggested that investing in equities within commingled funds that do not provide dividends could accomplish that. He said beneficiaries need to understand the trade-offs and often struggle with prioritizing income versus growth, saying they would prefer both.

Mr. Masten moved the Board adopt the recommended asset allocation changes, implementation plan, and changes to the Permanent Funds Investment Policy 2.25.100. Mr. Hill seconded, and the motion carried unanimously.

STATE ACTUARY UPDATE

Mr. Matt Smith, State Actuary, reviewed how the Office of the State Actuary (OSA) is organized, its mission, principal duties, and clients. He described how actuarial funding policy is used to finance the ongoing costs of the retirement systems and how the costs of future pensions are reduced by the expected long-term return on invested contributions. Actuarial cost methods determine how much members and employers contribute to the pension systems, the ongoing annual costs or "normal costs," by allocating pension plan costs over employees' working careers. If everything happens as planned, these annual contributions should accumulate with investment earnings to fund a member's pension at the time of their retirement.

In measuring the health of a pension plan and determining whether a plan is on track with its systematic actuarial financing strategy, actuaries consider two measurements: funded status and unfunded actuarial accrued liability (UAAL). The funded status measurement compares a plan's assets to today's value of earned pensions. If a plan is 100 percent funded, there should be \$1 of assets for \$1 of earned pension liability. If a plan is less than 100 percent funded, the plan has a UAAL. Additional contributions (beyond the normal cost) are required to eliminate the UAAL and return the plan to 100 percent funded status.

Mr. Smith reviewed the latest actuarial valuation results as of June 30, 2010. As of that measurement date, he said all of the state retirement plans are 100 percent funded except PERS1 and TRS1.

Mr. Smith also reviewed the key long-term economic assumptions from statute that are used in the actuarial valuation. They include the valuation interest rate, general salary increases, and inflation. He said economic assumptions are reviewed every two years and demographic assumptions are reviewed every six years. He said the inflation assumption is a measure of changes in the consumer price index for Seattle-Tacoma-Bremerton rather than national economic inflation since the assumption is primarily used to model changes in post-retirement cost-of-living adjustments for the state retirement systems. Mr. Smith also reviewed the recent changes to the economic assumptions adopted by the Pension Funding Council and LEOFF Plan 2 Retirement Board as a result of a recent economic experience study conducted by OSA. He spoke to inputs to the study, including coordination of funding and investment policies. A discussion ensued regarding investment return volatility, salary assumptions, contribution rates, gain sharing, proposed early retirement windows, and other legislative mandates affecting retirement plans, including a recommendation for a 7.5 return assumption to become effective July 1, 2013, and be phased in over 10 years. Mr. Smith said full reports on his economic

experience study are available on OSA's website. In response to Senator Brown's interest in hearing a report on the potential merger of the LEOFF1 and LEOFF2 systems, Treasurer McIntire said the Board could consider that for a future agenda. Ms. Whitmarsh said the OSA could bring education to the Board on the effects on pensions if early retirement windows were adopted by the Legislature.

[Mr. McElligott was no longer in attendance via teleconference at 1:35 p.m.]

DEMOGRAPHICS EDUCATION SESSION

Mr. Lerch provided an education session on world demographics trends, their implications, and relevance to investment decisions. The session included trends of population change, age distribution, middle class growth, and migration between regions, and compared emerging and developed market countries. Mr. Nierenberg pointed out the data challenges the WSIB to consider across all asset categories what portion of funds should be focusing on what themes should the WSIB find good values and managers, and if enough resources are allocated on finding those opportunities so WSIB can be there ahead of the crowd.

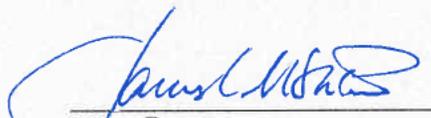
[Ms. Schurke and Mr. Hill left at 2:30 p.m.]

ECONOMICALLY TARGETED INVESTMENTS ANNUAL REPORT

This item was deferred to the January Board meeting.

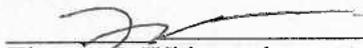
OTHER ITEMS

There was no further business to come before the Board and the meeting adjourned at 2:33 p.m.



Mike Ragan
Acting Chair

ATTEST



Theresa J. Whitmarsh
Executive Director



STATE STREET®

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December 16, 2011

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State Treasurer
Chairman
Washington State Investment Board
2100 Evergreen Park Drive SW
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Theresa Whitmarsh
Executive Director
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Dear Treasurer McIntire, Theresa and Members of the Board,

On behalf of all the employees of State Street, I want to express my thanks and gratitude to the Washington State Investment Board Evaluation Team for their recommendation of State Street to serve as your next global custodian and securities lender. I regret that that the State Street Board Meeting is today in Boston and I am unable to be with you in person. I welcome the opportunity to visit with you in Olympia or to host you at any time in Boston at your convenience.

We welcome your return to State Street and I commit all the resources necessary to execute a smooth conversion, maintain excellent communication and provide the most robust investment servicing in the industry. As the evaluation team will share, one of the most notable changes to our service model since 2007 is our acquisition of Investors Financial Corporation that I spearheaded. Our Sacramento office offers WSIB unparalleled access to accurate and responsive accounting services designed especially for those funds with a significant amount of internally managed assets. Our extensive experience in this arena has enabled us to position accounting teams attuned to the objectives of investment managers. This ensures we capture transactions and portfolio valuations correctly the first time. After all, the best analytic and risk tools are only as good as the data that feeds them. The overall State Street solution customized for WSIB represents the best in class investment servicing model and ensures flexibility and growth over the years.

Our desire is to exceed your expectations. With an excellent management team, strong capital position, deep client relationships and global reach and scale, State Street is well positioned to face the future with WSIB in confidence. Thank you again for your trust in us and Welcome Back!

Best Regards,

Joseph L. Hooley
Chairman, President and
Chief Executive Officer